

# NATIVE AMERICAN BRANDS™

## DEVELOPMENT PROPOSAL

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## Introduction

This is a revision to a working paper on establishing, developing and operating a business named *Native American Brands*<sup>™</sup> ("NAB") whose mission is value creation and profits for Native Americans in North, Central and South America ("Native America") through commercial economic activities. NAB is the product of an initial collaboration of Bill McCormick ("Level Three Performance Solutions<sup>™</sup>"), and Teresa Richlee-Sachs and Edwin Tafoya of the Santa Clara Pueblo ("Native American Products Association<sup>™</sup>"), who see a need and opportunity in Native America for economic development outside gaming, and who see changes and developments in the retail markets of North America and Europe centered on values based consumers, natural and organic products providing a potentially significant business opportunity for Native America. A key driver of the timing of this initiative is the rapid changes and future plans of retailers including Wal-Mart, Safeway, Target and other important retail players to expand wide-spread availability of organic products. Included at the end of the document are recent announcements related to the difficulties Organic product producers already are having sourcing their own product lines. So at the anticipated pace and scale envisioned by these retailers they are at risk of diminished availability of products and diminished product quality both of which present significant barriers to success and for strategic issues around availability of quality organic products. Also included is an announcement of the purchase of an organic farm property in the San Diego area by the Pauma Band of Mission Indians showing comparable development paths. Both are germane to this proposal indicating both the potential and the interest of NGO, public, private sector and socially responsible investor communities.

*The material in this document has been prepared for informational purposes only without regard to any particular user's investment objectives, financial situation, or means, and Level Three Performance Solutions<sup>™</sup> ("Level Three<sup>™</sup>") and Native American Products Association<sup>™</sup> ("NAPRA<sup>™</sup>") are not soliciting any action based upon it. This material is not to be construed as a recommendation; or an offer to buy or sell; or the solicitation of an offer to buy or sell any security, financial product, or instrument. Although this material is based upon information that Level Three<sup>™</sup> and NAPRA<sup>™</sup> consider reliable and endeavor to keep current, they do not represent that this material is accurate, current, or complete and it should not be relied upon as such.*

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## **About the Mission of the Business**

The mission and aim of *Native American Brands*<sup>™</sup> is to bring products produced by Native Americans to North America (“US”) and European (“EU”) retail markets profitably; to potentially take commercial business opportunities into Native America with Native American entrepreneurs, and to provide access to these markets to affiliated Native American businesses by:

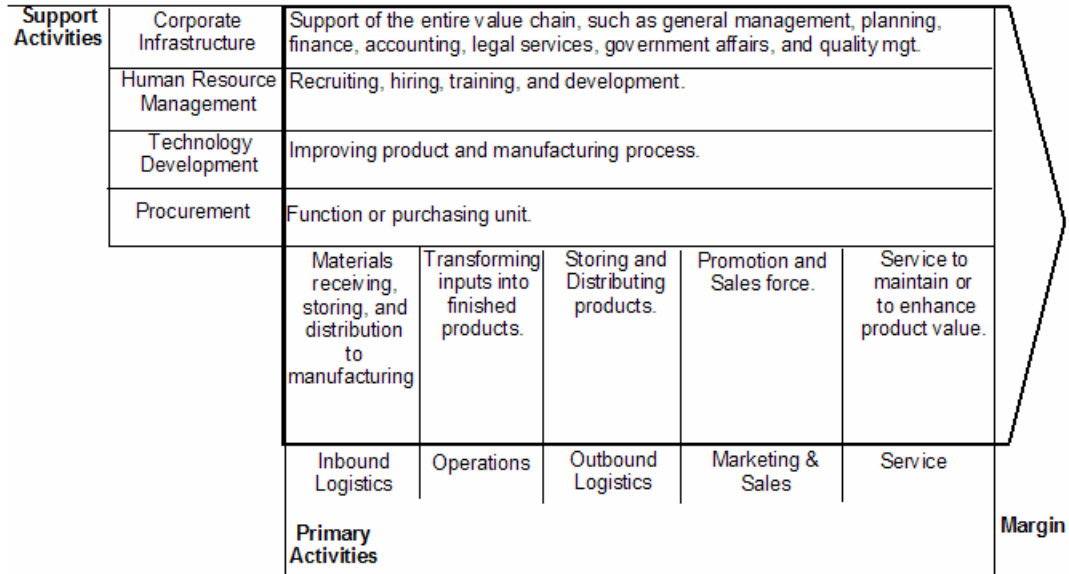
- (1) creating with Native American Products Association<sup>™</sup> (“NAPRA<sup>™</sup>”) a powerful value-laden brand of Native American consumer products which are produced and promoted using organic, green, sustainable methods of production and manufactured and distributed in socially healthy ways;
- (2) producing and marketing products principally created or originated by Native America (at least 40% of the value added is Native American sourced); and,
- (3) providing and making available to Native American entrepreneurs and businesses essential advisory and operating services across the entire Retail Value Chain (**See Figure 1 – The Value Chain (Michael Porter)**) and,
- (4) Perpetuating Native American ownership of NAB.

NAB also may own and operate related businesses with Native Americans at the discretion of its Board of Directors.

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**Figure 1 – The Value Chain (Michael Porter)**

C. The Value Chain



**About the Projected Financial Performance and Capital Requirements**

NAB is establishing a minimum capital requirement of \$250,000 to begin operations. These monies may result from a combination of start-up capital provided by the founders, strategic partners or early stage investors through the purchase of Preferred Stock. *Table 2* shows the NAB consolidated Income Statement including the NAPRA Income Statement shown in *Table 3*. Key assumptions are discussed in the sections immediately following these two tables.

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**Table 2 – NAB *pro forma* Consolidated Income Statement**

<b>NAB CONSOLIDATED</b>			Year 1	Year 2	Year 3	Year 4	Year 5
<b>Costs</b>							
Administrative							
Growth Rate							
General Manager			90,000	94,500	99,225	104,186	109,396
Controller/Financial Manager			60,000	63,000	66,150	69,458	72,930
Office Manager/Accountant			45,000	47,250	49,613	52,093	54,698
Office/Telecom/ISP			40,000	42,000	44,100	46,305	48,620
Legal/Accounting			40,000	18,000	24,000	30,000	50,000
Benefits/Taxes	32%	230,000	230,000	241,500	253,575	266,254	279,566
Marketing							
Marketing Director			75,000				
Events			90,000				
Entrepreneur in Residence			60,000	150,000	300,000	500,000	250,000
Development Projects			200,000	250,000	400,000	300,000	250,000
			<u>948,750</u>	<u>1,064,688</u>	<u>1,430,022</u>	<u>1,596,823</u>	<u>1,349,164</u>
T&E	18%	518,750	170,775	191,644	257,404	287,428	242,850
NAB Costs			<u>1,119,525</u>	<u>1,256,331</u>	<u>1,687,426</u>	<u>1,884,251</u>	<u>1,592,014</u>
NAPRA Costs			<u>346,880</u>	<u>398,912</u>	<u>458,749</u>	<u>527,561</u>	<u>606,695</u>
Total Costs			<u>1,466,405</u>	<u>1,655,243</u>	<u>2,146,175</u>	<u>2,411,812</u>	<u>2,198,709</u>
<b>Income</b>							
Gifts and Grants			57,235	65,820	75,694	87,048	100,105
NAPRA Sales/Licenses/Royalties			324,333	372,983	428,930	493,270	567,260
NAB Sales/Licenses/Royalties	10%		<u>1,231,478</u>	<u>1,381,964</u>	<u>5,557,500</u>	<u>7,156,125</u>	<u>10,597,500</u>
Total Income			<u>1,613,046</u>	<u>1,820,768</u>	<u>6,062,124</u>	<u>7,736,442</u>	<u>11,264,865</u>
<b>Sources and Uses of Cash</b>							
Consolidated EBITDA			146,641	165,524	3,915,949	5,324,630	9,066,156
Investments, Gifts, Profits			<b>250,000</b>	<b>500,000</b>	<b>500,000</b>	<b>250,000</b>	<b>1,000,000</b>
<b>Net Cash On Hand</b>			<u>396,641</u>	<u>1,062,165</u>	<u>5,478,114</u>	<u>11,052,744</u>	<u>21,118,900</u>

*Table 2* shows the Native American Brands *pro forma* Consolidated Income Statement with an abbreviated Sources and Uses of Cash including the Native American Products Income Statement which is shown in *Table 3*. Most of the information in *Table 2* is self explanatory. However, some additional discussion of the *Entrepreneur in Residence* ("EIR") program is warranted.

NAB has as its primary mission creating and developing commercially successful businesses in the product markets rather than in government contracting and services. The latter are financeable through the SBA, the Native American Bank and other possible sources.

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NAB is interested in taking on a role somewhat similar to private equity firms with an emphasis on developing early stage businesses rather than on restructuring and turning around mature businesses whose performance and stock valuation are declining, and who are consequently undervalued.

NAB is naming its business development program, the EIR, in order to clearly distinguish its role in the development of businesses which is to become as involved as necessary to make them successful taking an equity position in the firms and participating on an on-going basis in their development. This is more than incubation different than venture capital and less than a buyout as the intention is to create a sustainable, profitable Native American business.

NAB will be compensated at market value for the services rendered to the Native American businesses and with equity. NAB may also receive royalty/licensing income of up to 2% of net sales or consulting fees. NAB will assist in arranging financing and working capital to grow the respective businesses. NAB will also be involved to some point in governance of the businesses. NAB envisions a set of timelines and milestones which will govern its involvement in each business the completion of which is an established exit point after which NAB will remain an equity participant.

Native American Products Association ("NAPRA") will operate independently while also maintain a controlling interest in NAB. As a 501C3, NAPRA has the possibility of pursuing grants and soliciting gifts to support its activities or to support the development of specific business ideas. Where practical and strategically sound, NAPRA will be a conduit for gift and grant monies to flow into NAB development activities. However, this is not essential as NAB will strive to be self sustaining as quickly as possible.

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The NAPRA Income Statement in *Table 3* also is self explanatory to a large extent. As presented here, the NAPRA business forecast assumes 15% of its income is from grants/gifts. This may not be necessary if the funds flows from its overall activities are healthy and growing. However, it seems appropriate at the beginning to suggest keeping grant monies on the radar screen as potential sources of incentives for pursuing certain ideas and to pursue gift monies as a measure of keeping focused on the needs and opportunities in the market and larger world through the expressed and felt needs of possible patrons, donors and financial supporters who might wish to give and to support financially to the development of Native American businesses for retail markets.

**Table 3 – NAPRA *pro forma* Income Statement**

<b>Native American Products Association (NAPRA)</b>	Original Budget Detail	Original Budget Total	Y1	Y2	Y3	Y4	Y5
<b>MARKETING</b>							
PRINT/PUBLICATIONS	30,000		24,000	27,600	31,740	36,501	41,976
OUTREACH/ADVERTISING	50,000		40,000	46,000	52,900	60,835	69,960
WEBSITE DEVELOPMENT	20,000	100,000	16,000	18,400	21,160	24,334	27,984
	<u>100,000</u>		<u>80,000</u>	<u>92,000</u>	<u>105,800</u>	<u>121,670</u>	<u>139,921</u>
<b>CONVENTION SERVICES</b>							
SANTA FE GIFT MARKET	75,000		60,000	69,000	79,350	91,253	104,940
NATIONAL/INTERNATIONAL SHOWS	20,000	95,000	16,000	18,400	21,160	24,334	27,984
	<u>95,000</u>		<u>76,000</u>	<u>87,400</u>	<u>100,510</u>	<u>115,587</u>	<u>132,924</u>
<b>ADMINISTRATION</b>							
EXECUTIVE DIRECTOR	58,000		46,400	53,360	61,364	70,569	81,154
NATIVE PROGRAM DIRECTOR	45,000		36,000	41,400	47,610	54,752	62,964
SFGM & INTERNET MANAGER	36,000		28,800	33,120	38,088	43,801	50,371
DATA BASE & OFFICE MANAGER	32,000		25,600	29,440	33,856	38,934	44,775
TAXES/BENEFITS @ 30%	51,300	222,300	41,040	47,196	54,275	62,417	71,779
	<u>171,000</u>		<u>136,800</u>	<u>157,320</u>	<u>180,918</u>	<u>208,056</u>	<u>239,264</u>
<b>OVERHEAD</b>							
RENT	12,000		9,600	11,040	12,696	14,600	16,790
PHONE/INTERNET	6,000		4,800	5,520	6,348	7,300	8,395
SUPPLIES	4,800		3,840	4,416	5,078	5,840	6,716
TRAVEL/OUTREACH	24,000	46,800	19,200	22,080	25,392	29,201	33,581
	<u>46,800</u>		<u>37,440</u>	<u>43,056</u>	<u>49,514</u>	<u>56,942</u>	<u>65,483</u>
<b>CONTRACT SERVICES</b>							
LEGAL & ACCOUNTING	7,200		5,760	6,624	7,618	8,760	10,074
DUES & SUBSCRIPTIONS	3,600		2,880	3,312	3,809	4,380	5,037
EDUCATIONAL WORKSHOPS	10,000	20,800	8,000	9,200	10,580	12,167	13,992
	<u>20,800</u>		<u>16,640</u>	<u>19,136</u>	<u>22,006</u>	<u>25,307</u>	<u>29,103</u>
<b>TOTAL ANNUAL COSTS</b>							
Sales/License Fees/Royalties		484,900	346,880	398,912	458,749	527,561	606,695
Gifts/Grants	15%	80,009	57,235	65,820	75,694	87,048	100,105
<b>Income (EBITDA Target)</b>	10%	533,390	381,568	438,803	504,624	580,317	667,365
<b>Annual Growth Assumption</b>							
			80%	15%	25%	30%	20%
SUGGESTED PROGRAMS INCLUDE MICRO-LENDING & SCHOLARSHIP FUNDS							

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**Table 3.1 – NAB pro forma Sales Forecast (For Discussion Only)**

**NAB Sales Forecast**

Entrepreneur in Residence	Y1	Y2	Y3	Y4	Y5		
Net Amount Invested	60,000	90,000	125,000	125,000	250,000		
Probability of realization	0.40	0.55	0.65	0.70	0.90		
Magnitude of Realization ROI	4.00	6.00	7.50	9.00	7.50		
Multiplier of Realization	1.00	1.50	2.00	1.00	1.00		
Five Year Payoff							
	60,000	96,000	297,000	585,000	378,000	405,000	
	90,000	445,500	877,500	567,000	607,500		
	125,000	1,218,750	787,500	843,750			
	125,000	787,500	843,750				
	250,000	1,687,500					
Basis	1.00	1.50	3.00	4.00	2.00	Projected	Minimum
Y1	0					0	1,231,478
Y2	297,000	668,250				965,250	1,381,964
Y3	585,000	1,316,250	3,656,250			5,557,500	1,856,168
Y4	378,000	1,265,625	2,362,500	3,150,000		7,156,125	2,072,676
Y5	405,000	911,250	2,531,250	3,375,000	3,375,000	10,597,500	1,751,215

This table is for informational and discussion purposes. It will require refinement going forward as there is no particularly compelling way to forecast sales in years 1 & 2.

**About the Market**

Our earlier discussions about this business have been positive. Irv Weinberg contributed an early sketch of the market, the branding potential, the opportunity.

*“The organic market is booming. 2006 growth has reached 54 billion. Growing 20% each year since 1990.*

*Wal-Mart has moved heavily into this segment and have stated that they intend to be the #1 retailer of organics hoping to sell it at only a 10% premium over conventional products. That means that they will suck out a huge portion of available products. It also means that retailers like Whole Foods will have to make sure that the brands they sell will not be sold 1 to 1 in Wal-Mart or they will not be able to compete. Therefore 2 things happen. Either you become a supplier to Wal-Mart which they will need a lot of, or you become a premium brand and sell to Whole Foods and other tier one retailers. Either way it is a prime opportunity you just have to pick the direction you want to go in.*

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*The Native American culture has an excellent opportunity to gain entrance to this growing market for many reasons because of the intrinsic romance built into the Native American culture. Also their culture has huge health issues as well as the need for training and employment beyond the casinos. This would positively solve and provide both food and career opportunities. I have many contacts in distribution nationally and internationally so we can definitely get Native America Organics into the product stream. So the way I see it: create the farms which will create jobs, get the product into the pipeline which will create revenue and create a brand with many possibilities."*

### **About the Native American Products Association™**

The *Native American Products Association™* ("NAPRA™") is wholly owned and operated by *New Mexico's Own™*, a New Mexico 501C3 corporation. Teresa Richlee-Sachs, Executive Director, and Edwin Tafoya, Vice President, from Santa Clara Pueblo, introduced Native American Products Association in 1994 as a vehicle for creating market access and technical assistance for producers of Native American products through a certification process, a wholesale trade show targeted at the state and national park concessions and technical assistance in product development and marketing.

In 1995 they acquired the New Mexico's Own (NMO) Program from the NM Economic Development Department and combined NAPRA's efforts with the overall statewide project of promoting products made in NM. They have produced 16 wholesale trade shows featuring Gift and Gourmet foods from the southwest, participated in national and international trade activities from California to Germany and managed showrooms at the Dallas and Denver trade marts. Buyers from these shows include Fred Harvey/AMFAC, National Museum of the American Indian, the NM Museum Foundation, Whole Foods and hundreds of stores buying for the tourism and food sector. The NMO on-line market [www.newmexicosown.com](http://www.newmexicosown.com), provides e-commerce wholesale and retail sales for over 40 companies with the ability to handle up to 250 companies.

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NMO/NAPRA has partnered with NM EDD, NM Dept. of Ag, Tourism, AIPC, 8 Northern Pueblos and other private sector non-profits to accomplish its mission. They believe their organization has the expertise to assist the NAB project aimed at creating a brand identity and market access for Native owned products. Additional information is available at their website and separately from them describing their relations with other Native American product producers.

### **About Peruvian Trades™**

Another business working on *Native American Brands™* is Peruvian Trades™ (“PT”). It is owned and operated by Mr. Eduardo Yi, a member of the NAB Initiative Group who lives in Santa Fe, NM. See [www.peruviantrades.com](http://www.peruviantrades.com) for contact and other additional information.

### **About Fundamental Business Questions**

Initially before proceeding further, we need to address some fundamental questions:

1. Is there a legitimate need and place in the world for this type of business?

Based upon available information and our direct knowledge of the needs of Native America, we think there is a legitimate need and niche for NAB.

2. Does the proposed mission make sense in today's world and economic circumstances?

Based on discussions and discovery so far, we think it is feasible and desirable to further test this business and organizational concept and approach.

3. What form of structure is possibly able to meet the growth and development needs of this business?

We think there are intrinsic strategic advantages in establishing NAB in a way potentially keeping it owned and controlled by Native Americans. To that end, the initial Board of Directors will have seven (7) members, four (4) named by NAPRA and the Founders. Later, two (2) more will be added for B Stock owners, and one (1) for Preferred Stock owners.

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To achieve the aim of Native American ownership and control, we envision a capital structure composed of both preferred and common stock. The preferred stock will be non-convertible interest bearing with specific coupon payments, liquidation preferences and possibly other provisions enabling socially responsible and interested investors to invest, with a minimum investment of \$100,000. Preferred stock holders will nominate one (1) Board member.

There will be a dual class of common stock: the "B" stock will have 70% of the voting control of the common stock and nominate four (4) members of the Board of Directors; the "A" Stock will have 30% of the voting control of the common stock and nominate two (2) members of the Board of Directors. A stock will be used to raise money in public markets. B stock will be controlled by Native Americans via the Board of Directors.

The Board of Directors will carry the responsibility on behalf of the shareholders for determining how NAB develops and unfolds.

4. What governance approach and structure is appropriate to balance these factors?  
NAB will be a Nevada or Delaware corporation with the governance structure outlined in 3 above.
5. What might a business development plan look like in terms of the pace and scale?  
The business development plan or business plan will be written as soon as possible once the overall concept and business model are agreed upon.
6. What capital structures will support this type of approach?  
See 3 above.
7. How much capital is needed and when? A preliminary five year financial plan is included in this document. We envision commitments of \$500,000 to start operations. Milestones specifying other capital hurdles will be incorporated in future business documents and plans.

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8. What might the mix of capital be among gifts, socially responsible investors and the public and private markets?

At inception, we are establishing a goal for NAPRA of raising 15% of its annual budgets for NAB from gift monies and grants. The operating target is 10% EBITDA. Both are shown in the enclosed financials.

9. How will the NAB founders and Initiative Group be compensated?

We propose:

- a) To compensate founders on a fee for service basis at market rates for work performed during the ramp-up; and,
- b) for the founders to jointly share, in a way yet to be determined, in a future revenue stream at 100 – 200 basis points on net sales once sales reach a stipulated level, say \$1.0M annually; .

At the next decision or review point, if we have asked the right questions and well understand the key issues, we can consider writing a business plan. The gist of the plan of action outlined in this document will be made available on the Level Three website about 7/1/2007 in order to invite discussion within a larger circle in hopes it will lead to initial funding within ninety (90) days.

### **About the Core Values**

Another key area for action is identifying the core values of the proposed business implying some intuitive or expressed sense of its identity and potential. These will shape answers to the above questions and provide coherence to the development of the business. Based upon other work we are doing in this area, I suggest as a possible starting point, Wholeness of the Earth and Cosmos, Earth and Man, Man and Cosmos; a synthesis of sustainability, "Do No Harm", "Becoming Native to this place"; and, being a human-centered business, adding to them the ambition of creating new forms of business ownership and operation appropriate to these times and to the needs of Native Americans and of Humanity as a whole in terms of social and economic development. We also recommend familiarizing one's self with international issues such as fair trade practices at <http://www.fairtrade.net/>, <http://www.flo-cert.net/>. Another one to view is <http://www.tenthousandvillages.com/>.

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**About the Business Architecture**

Another aspect to consider is the business architecture, financial and governance structure. Some exemplars which might be considered are: 1) Newman’s Own; 2) Organic Valley and other agricultural cooperatives; and, 3) New York Times and the Wall Street Journal both of which have a dual class stock structure providing public investment but retaining family control as a closely held entity.

**About the Capital Structure**

We have had no joint discussions yet about the capital structure. So to initiate the discussions I am proposing: a) a dual stock option with Class A Common voting for 3 directors; and b) Class B Stock voting for 4 directors. In addition, I suggest, for discussions, stipulating New Mexico’s Own take a lead or majority position in the Class B stock so as to ensure Class B is held and controlled by Native Americans. Class A Stock then could be held by socially responsible investors, institutions and the Public. This form is depicted in **Table 4 – Capital Structure**. We also should be free to discuss any other capital architecture which would enable the business to succeed and to raise the capital needed for success.

**Table 4 – Capital Structure**

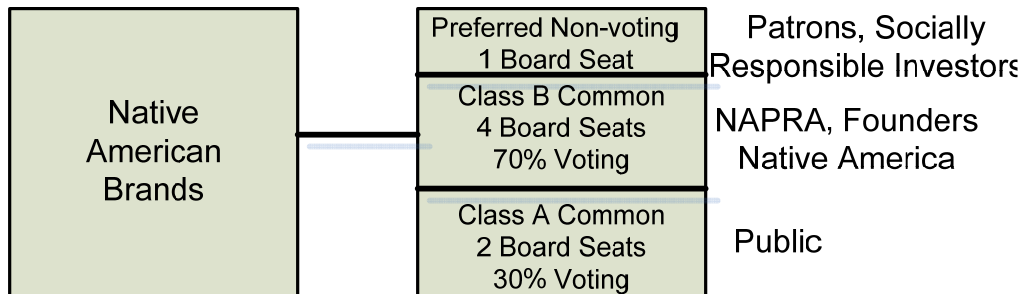


Table 4 depicts a capital structure which will give Native America control long-term with the possibility of raising capital in the public markets without diluting or losing control. Additional information is available for possible discussion on this topic. It needs refinement soon so we can begin talking with possibly interested parties.

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Along this line of discussion, we might also consider alternative business models for two (2) product businesses: (1) Entrepreneurial businesses, typically ones operated by entrepreneurs and their families; and, (2) Local businesses, operated by recognized groups and communities such as Tribes, Pueblos, Nations, Peoples and Indigenous communities. Both types can be further differentiated in terms their products for local, regional, national and international markets. The governance and structure of NAO along with capitalization should be able to meet the varied needs of these different types of businesses.

### **About the Challenges**

Native American businesses face major and often insurmountable barriers to success and challenges related to the capabilities needed to:

- 1) conceive, design, and produce products;
- 2) gain access to retail markets;
- 3) promote their products effectively; and,
- 4) compete and operate businesses effectively, i.e. production, fulfillment and logistics, as they grow and mature.

They face another set of developmental challenges in the ability to seek, attract or solicit compatible product designs, business ideas, i.e. market opportunities. They also often do not have the operational, marketing, financial and leadership wherewithal needed to develop or manufacture products and to market them successfully.

The NAO business concept is intended to fill a gap in the market currently complimenting rather than conflicting with the services now offered to Native America by the National Center for American Indian Enterprise Development (“NCAIED”) in Phoenix and the Native American Bank in Denver, both of which follow traditional lines of thinking, i.e. SBA model, about development and finance.

The principal aim of this business, the NAO, is to make profits which in their turn can fund or provide developmental economic capabilities in Native America. A secondary aim is use disruptive innovation as a differentiator in business development. Nevertheless, the proposed range of activities is limited organically by the extent to which profits from existing businesses and investment capital complemented by philanthropy and governmental grants and incentives support the level of effort.

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In looking for other business models to consider, several come immediately to mind: (1) Newman's Own, (2) associations of consumers and producers, (3) cooperatives like exist for almonds, orange juice, and dairy products, (4) non-governmental and non-profit organizations, like New Mexico's Own, a private 501C3, which promote economic development. In fact, a key goal for NAO is providing a private sector success story which preserves the social and economic benefits of new business development, harnessing the driving forces of creative destruction, unfettered by government intervention and outside the control of international corporations.

NAO will provide Native American businesses the ability to access volume retail channels like Wal-Mart, Whole Foods, Walgreens and other specialty channels in categories like: (1) Food, beer and wine; (2) Drugs, health aids, and beauty aids; (3) agricultural products and raw materials, (4) alternative energy; and, so forth, while at the same time preserving, enhancing, and extending Native American participation in economic life without totally compromising their unique cultures and history subordinating them in the ocean of materialism engulfing the world. The ultimate owners and principal beneficiaries of this value creation are intended to be Native American communities, i.e. entrepreneurs, pueblos, tribes, and nations.

We first proposed the development of Native American Organics™ in September of 2006 to the National Center for American Indian Enterprise Development (NCAIED) in Arizona and California, the Native American Bank NA in Denver, and the Chickasaw Nation in Oklahoma. In March of 2007, we met Teresa Richlee-Sachs and New Mexico's Own. This discussion document is the result of that development process.